

**UNITED STATES DEPARTMENT OF AGRICULTURE**

Farm Service Agency  
Washington, DC 20250

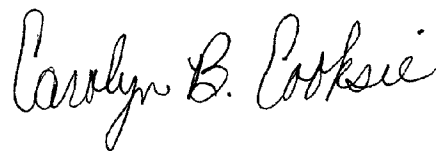
**Notice FLP-69**

1941-A

**For:** State and County Offices

**Using Operating Loan (OL) Funds for Real Estate Repairs and Improvements**

**Approved by:** Deputy Administrator, Farm Loan Programs



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**1 Overview**

**A**

**Background**

FSA revised 7 CFR Part 1941, Subpart A to implement changes made by the Federal Agriculture Improvement and Reform Act of 1996. These changes removed from section 1941.16 the paragraph limiting OL funds used for improvements and building repairs to \$15,000.

**B**

**Purpose**

This notice clarifies treatment of OL funds used for improvements and repairs to real estate.

**C**

**Contacts**

State Offices shall direct questions about this notice to LMD.

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**Disposal Date**

July 1, 2000

**Distribution**

State Offices; State Offices relay to County Offices

## 2 Authorized OL Purposes

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### A

#### Regulation

7 CFR Part 1941, Subpart A describes authorized loan purposes for the Direct Operating Loan program. Included among these purposes are loans for:

- paying costs associated with reorganizing a farm or ranch to improve its profitability
- purchasing farm or ranch equipment
- paying annual operating expenses
- paying farm, ranch or home needs.

This language permits OL funds to be used for real estate improvements or repairs in certain cases. Before the latest revision, direct loan regulations limited real estate improvements and repairs to \$15,000 annually. The present regulations do **not** include this limit.

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### B

#### Program Purpose

The Consolidated Farm and Rural Development Act provides that the Agency make OL loans for different purposes than the Farm Ownership (FO) program. FO purposes include making capital improvements to a farm or ranch. Since Congress appropriates money for the Agency to lend under separate programs, the Agency must ensure that this money is used only for purposes which Congress intended.

While the purchase of real estate is expressly prohibited for the OL program, it is reasonable to permit some OL funds to be used for repairs and minor improvements to real estate within the loan purposes established in the regulations.

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## 2 Authorized OL Purposes (Continued)

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### C

#### Guidelines for OL Loan Purposes

OL funds may be used for limited real estate improvements and repairs according to the following guidelines.

- Repairs and improvements to existing structures which are expensed, rather than capitalized, can be considered an annual operating expense under section 1941.16(c).
- Fixtures to a farm building may be considered farm or ranch equipment and financed with OL funds under section 1941.16(b).
- Loans may be approved for building construction under 1941.16(a) or (c) depending on the particular circumstances. Building construction may only be financed under the OL program when the proposed building can be repaid within 7 years.

**Example:** An \$8,000 pole barn to house a combine could be authorized. However, a \$100,000 building financed with a 15-year amortization and a 7-year balloon payment is not permitted. The 15-year amortization period indicates this loan is for real estate rather than operating purposes.

- Any purchase of land is not authorized.
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